

**NATIONAL CREDIT UNION ADMINISTRATION**

**OFFICE OF INSPECTOR GENERAL**

**RESULTS ACT: Goal 1  
Promote a System of Financially Sound  
Federally Insured Credit Unions**

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## EXECUTIVE SUMMARY

The Government Performance Results Act of 1993 (Results Act) seeks to improve the effectiveness, efficiency, and accountability of federal programs. The Results Act requires government agencies to develop strategic plans, annual performance plans, and performance reports. The National Credit Union Administration (NCUA) performance plan must also include objective, quantifiable, and measurable performance goals.

The NCUA strategic plan and annual performance plan identifies five strategic goals. The first goal states NCUA will “Promote a system of financially sound, well-managed, federally insured credit unions able to withstand economic volatility.” For the year 2001, NCUA budgeted 70 percent of staff positions (692) and dollars (\$92 million) for the achievement of Goal 1. Because of the amount of resources devoted to Goal 1, we selected that goal for our annual review.

NCUA identified three outcome goals for strategic Goal 1 for 2000, 2001, and 2002, namely: Ensure federally insured credit unions are financially healthy; Ensure credit union management is aware of and prepared to meet potential future financial challenges; and Maintain the healthy performance of the National Credit Union Share Insurance Fund (NCUSIF). The purpose of our review was to evaluate NCUA's performance in meeting and reporting on Strategic Goal 1 for 2000 and 2001. Our review emphasis was verification and validation of goal performance information reported to the NCUA Board and outside the agency. Our review scope covered natural person credit unions and did not include corporate credit unions serving the natural person credit unions. The review did not address the question of whether the measures selected were appropriate.

Our primary review procedures included reviewing Results Act requirements as appropriate for NCUA; reviewing NCUA plans and guidance for Goal 1; interviewing NCUA staff; and reviewing report documentation. Primary agency offices for the review included the Office of Executive Director (OED), the Office of Strategic Program Support and Planning (OSPSP), Office of Examination and Insurance (E&I), the Office of Chief Financial Officer (OCFO), and a selected regional office. Our review was performed during March through May 2002.

Timely information is critical to ensure appropriate regulatory action. Previously we had found that all other federal financial regulators require quarterly call report information from their insured institutions. Credit union call reports are available semi-annually from all natural person credit unions with assets less than \$50 million and quarterly from credit unions with assets greater than \$50 million. This has meant that NCUA has had complete and consistent information for all credit unions twice a year. The NCUA Board, recognizing this weakness, has taken action to require quarterly reports from all federally insured credit unions beginning with the third quarter 2002. The quarterly reporting of financial and other information from credit unions will result in the NCUA receiving information for all credit unions in a more timely manner.

Overall, we concluded that planning, operating plans, and progress in achieving Goal 1 are appropriate. We concluded that the call report system, and the methods used by the agency in verifying and validating the call report information for the identified goals, is appropriate. Our report provides four recommendations for consideration and system improvement.

## BACKGROUND

### Government Performance Results Act (Results Act)

The Government Performance Results Act of 1993 (Results Act) seeks to improve the effectiveness, efficiency, and accountability of federal programs by requiring federal agencies to set goals for program performance and to report on annual performance compared with the goals. The Results Act requires government agencies to develop strategic plans, annual performance plans, and performance reports. The performance plan must be consistent with the strategic plan and cover each program activity set forth in the budget. In addition, the performance plan must also include objective, quantifiable, and measurable performance goals. Performance plans are intended to indicate annual steps taken by agencies to meet their strategic mission.

The Results Act requires an annual report to the President and Congress. The report should:

- Include performance indicators along with the actual program performance achieved;
- Described program results in terms of whether the performance failed to meet the criteria of a minimally effective or successful program;
- Review the success of achieving the performance goals of the fiscal year;
- Evaluate the performance plan for the current fiscal year relative to the performance achieved toward the performance goals in the fiscal year covered by the report;
- Explain and describe, where a performance goal has not been met;
- Describe the use and assess the effectiveness in achieving performance goals of any waiver;
- Include the summary findings of those program evaluations completed during the fiscal year covered by the report; and
- Indicate the functions and activities ... to be inherently governmental functions.

### Review Plan

NCUA has identified five strategic goals. The agency expends seventy percent of budget dollars and staff on Goal 1 – To “Promote a system of financially sound, well-managed, federally insured credit unions able to withstand economic volatility.” As a result, we selected Goal 1 for our second Results Act review. The review emphasis was verification and validation of goal performance information reported to the NCUA Board and outside the agency for 2000 and 2001, because this data represents actual results of operations, and should have supporting data.

For 2000, 2001, and 2002 the agency identified three outcome goals for strategic goal 1 namely: Goal 1.1 Ensure federally insured credit unions are financially healthy; Goal 1.2 Ensure credit union management is aware of and is planning effectively to meet current and potential future financial challenges; and Goal 1.3 Maintain the healthy performance of the National Credit Union Share Insurance Fund (NCUSIF).

The following table identifies the Outcome Goals and reported goal achievement progress:

**NCUA Strategic Goal 1 Identified NCUA Outcome Goals:**

<i>2000/2001/2002 Annual Plan Outcome Goal:</i>	<i>2000 Performance:</i>	<i>2001 Performance:</i>	<i>2002 Identified:</i>
1.1 Credit unions financially healthy	<b>Met</b>	<b>Met</b>	<b>Similar to 2000/2001</b>
1.2 Credit union management	<b>Met</b>	<b>Met</b>	<b>Similar to 2000/2001</b>
1.3 Healthy NCUSIF	<b>Met</b>	<b>Met</b>	<b>Similar to 2000/2001</b>

**Review Objective**

Our review objective was to evaluate NCUA’s performance in meeting and reporting on Strategic Goal 1 for 2000 and 2001: Promote a system of financially sound, well-managed, federally insured credit unions able to withstand economic volatility.

**Review Scope**

The review scope focused on:

- Limited legal and regulation review to Government Performance Results Act (Results Act);
- NCUA 2000-2005 strategic plan;
- NCUA 2000, 2001, and 2002 annual plans;
- NCUA 2000, 2001, and 2002 reporting and measurement mechanisms; and
- NCUA 2000 performance report to the Office of Management and Budget (OMB).
- We did not review corporate credit union information during this review.

**Review Methodology**

Our review methodology included:

- An identification of Results Act requirements regarding measurements; and data validation and verification.
- A review of NCUA’s guidance; strategic plan; annual plans; and annual report to OMB to:
  1. Determine how goal information was incorporated into agency plans;

2. Determine how measurements are identified and their validity;
  3. Determine how the identified measurements measure the goal 1;
  4. Determine how agency verifies and validates goal information (Results Act, Sec. 4, (b), a); and
  5. Determine validity of measurement information reported outside the agency.
- Discussions with NCUA staff and a review of documentation to determine and evaluate the relationship of review information to strategic and annual plans; accomplishment of goal 1; and annual performance reporting.

### **Verification, Validation, and Internal Controls**

Verification, validation, and internal controls for data information are primarily the responsibility of regional staff and the Office of Examination and Insurance (E&I). Measurement data is supported through the use of credit union surveys and call report data. In general, the examiner checks the data for accuracy and validity. The supervisory examiner reviews work performed by the examiner. The regional and central office analysts review examination and measurement data for reasonableness. Currently survey information comes from the examination survey, which is issued to each credit union at the end of the examination. The examiner has no contact with the survey and the credit union is not identified in the response to enhance valid responses.

Examiners review credit union call report data (financial and other data submitted by the credit union to NCUA on at least a semi-annual basis) prior to uploading it to the NCUA database. Also, during examinations examiners verify and validate call report and other information. During credit union insurance reviews examiners have a chance to verify and validate call report and other information. In at least one region, as of June 30<sup>th</sup> and December 31<sup>st</sup>, 2001, the Division of Supervision prepared an analysis of information from database for credit unions with capital less than 10 percent. The report was run recently this year. The analysis emphasis is on adverse trends and declining capital. Examiners can use the regional office capital trends analysis during their work with credit unions. Regions utilize examiners to review and verify call report information at input and during examinations.

Credit unions are required by NCUA to prepare periodic financial statements in accordance with Generally Accepted Accounting Principles (GAAP). GAAP provides a uniform system to validate financial information by external auditors and examiners with the accounting records. Credit unions are required to prepare and submit financial and other data reports (call reports) to NCUA at least on a semi-annual basis. Verification and validation of call report information is performed at a number of levels from the initial submission of data to the central office at NCUA. The examiner is the key NCUA person to ensure validity and consistency in the call report information. In addition, E&I performs validity checks on submitted call report information via software accounting edits (such as assets must equal liabilities), queries and reports as a part of internal controls to ensure validity and consistency of data. Regional offices and E&I perform queries on data after 5300s are submitted to test the data for consistency and reasonableness.

During examinations at credit unions, examiners review call report information submitted by the credit unions. Corrected call reports are submitted by credit unions when errors are discovered and corrections are necessary.

### **Strategy Changes**

The agency has conducted more than 200 meetings involving stakeholders and staff to receive input for strategic planning. Information developed has been provided to the NCUA Strategic Management Council (SMC) to assist them in planning for the agency. The SMC and an information technology committee are composed of senior agency staff to develop future planning for NCUA. The committees meet every other month to develop plans for the agency.

At the time of our review the DSP was finalizing the 2003-2008 NCUA Strategic Plan and preparing to release it for comment. The proposed strategic plan will include all five of the current strategic goals. The proposed Goal 1 is similar to the 2000-2005 Goal 1. The proposed Strategic goal 1 addresses the financial health of credit unions. NCUA believes the measures of this financial health should be flexible enough to allow innovation and sound business decisions by the credit unions. The measures should also be restrictive enough that they prevent unnecessary risks. It is the opinion of the agency that goal 1 currently does this and as a result, it has not been changed. Should emerging economic trends and/or credit union business practices indicate that change is necessary, the agency indicated, a fully coordinated agency change of the measure and target would be submitted to the NCUA Board for approval. However, the goal would remain the same, as it has been developed to be sufficiently broad as to not require change. We found that the proposed Goal 1 outcome goals emphasize timely action and empowerment to credit unions. Agency strategies have evolved to recognize goal accomplishment, communication, and an emphasis on risk containment such as implementing the new risk-based examination program to be initiated during 2002.

## PLANNING AND REPORTING ON GOAL PERFORMANCE

### Strategic Planning

The Results Act (Section 3 – Strategic Planning) requires specific information to be in the agency strategic plan including the following:

- Mission statement
- General goals and objectives
- Description of how the goals and objectives are to be achieved
- Description of how performance goals in plan related to general goals and objectives in strategic plan
- Key factors external to the agency that could significantly affect achievement of goals and objectives
- Description of program evaluations used in establishing/revising general goals and objectives

We reviewed the current NCUA Strategic Plan 2000-2005. We found that basically all of the requirements for strategic planning were included in the plan for Goal 1.

### Strategic Planning

NCUA works to ensure the mandates of the Results Act are included in the agency Strategic and Annual Performance Plans/Reports. The Director of the Division of Strategic Planning (DSP) is charged with ensuring that the agency is in compliance with the Results Act. The DSP, now a part of OSPSP, maintains a file of all OMB and OPM bulletins that are released regarding changes in Results Act requirements. The bulletins are reviewed for applicability and where appropriate, changes are incorporated into NCUA Annual Performance Plans when developed. DSP also attends the FIRREA GPRA Working Group Meetings and the OPM GPRA Working Group Meetings to ensure currency and compliance as well as learn from experiences of other agencies. NCUA's Strategic Plan is updated during the development of the Annual Performance Plan under the section "Strategic Plan 2000-2005 changes." NCUA Strategic Plan 2003-2008 is now under development and is being developed using the current OMB Circular A-11 to ensure full compliance with GPRA requirements. OSPSP fully coordinates the development of NCUA Strategic and Annual Performance Plans and Reports with the NCUA assigned OMB auditor. Additionally, NCUA has the Mercatus Center at George Mason University, which reviews federal agency Annual Performance Plans and Reports of the 28 largest agencies for the GAO, review NCUA annual plans and reports.

Presently the staff for the Division of Strategic Planning (DSP) consists of the director. A Planning Analyst position will be filled in the near future. Analytical assistance and report information is provided to the DSP by E&I staff and other detailed NCUA staff.

The Executive Director chairs the NCUA Strategic Management Council (SMC) and its membership consists of the six Regional Directors, President AMAC, and all Central Office Directors. The DSP serves as the SMC facilitator and coordinator. The SMC meets every odd numbered month and provides vital strategic oversight and input to the agency's planning process. The Information Technology Oversight Committee (ITOC) meets every even numbered month. The DSP chairs the ITOC, which is composed of the Director OCIO, Director E&I, Director OHR, Director OCFO, two Regional Directors and one Associate Regional Director. The ITOC provides strategic oversight of the agency's major information technology issues and as a result provides important information and input to the planning process.

NCUA study groups comprised of a cross section of management and staff are used to developed ideas for each of the five major goals. Input was also received from the Executive Director and NCUA Board.

We found that offices, in particular the Office of Examination and Insurance (E&I), develop detailed plans and action steps to assist in the accomplishment of Goal 1. E&I has taken the lead in providing guidance and assistance to regional staff.

Semi-annual performance reports track performance throughout the plan year. Upon completion of the plan year, the regions and offices prepare individual performance reports covering the actions in their operating plans. OSPSP integrates this information along with the electronic data reports to develop the NCUA Annual Performance Report. The report is fully coordinated with all regions and offices and approved by the NCUAB. The analysis from this report is used in the development and/or update of subsequent Annual Performance Plans completing the cycle.

In the NCUA Strategic Plan, the agency identified the proposed annual performance goals for the five-year period. These initial annual performance goals represent the best estimate as to the objectives necessary to achieve the longer-term output goals in NCUA Strategic Plan. These annual performance goals are then updated and/or modified as required in the development of the NCUA Annual Performance Plans. The update and/or modification is based on NCUAB guidance, budget implications, and external environmental factors such as the recent economic volatility. The Final Annual Performance Plan is developed in coordination with the agency budget for the planning year. Along the way, OSPSP works with the NCUA assigned OMB auditor to ensure compliance with the latest OMB directives and guidance.

Performance measures are currently communicated to the staff through distribution of the Final Annual Performance Plan and the Annual Performance Report. The information contained within these documents is further communicated throughout the field by Regional Directors and Supervisory examiners as they work with staff in the accomplishment of the mission. In addition, the agency annually discusses progress achieved at Region Management and Joint Management Meetings. The Office of Strategic Program Support and Planning (OSPSP) recently completed a series of briefings and discussions with the senior management of all six regions.

Agency guidelines for implementation of annual plans are included in NCUA Instruction 9501. The Instruction's purpose was to establish procedures for implementing the annual performance plan and reporting on the progress of the plan. In addition, the Instruction identifies: Team Leaders to be assigned for monitoring and reporting on plan progress; Strategy Team, Action Offices, Operating Plans and responsibilities of each; and the reporting of progress through Monthly Management Report updates and Quarterly Progress Reports.

NCUA Instruction 9501 is currently the only formal guidance for Results Act planning. It is currently under rewrite because the Results Act planning has evolved beyond the point at which it was developed and to apply lessons learned. For example, the current instruction calls for quarterly performance reports. The performance reports are based on call report data, which is only fully updated twice each year. The Director of Strategic Planning is now accomplishing these reports on a semi-annual basis to better correspond with data availability. Additionally, reports are only sent forward in the event there is the potential that goals would not be achieved.

**CONCLUSION:** NCUA expends significant staff resources to ensure that strategic planning is performed in a meaningful way to meet the needs of credit unions, the future of the agency, and the requirements of the Results Act. We found that all levels of NCUA management and staff are solicited for strategic planning input and execution of the planning.

**RECOMMENDATION:** None.

#### **Annual Performance Plan**

The Results Act (Section 4 – Annual Performance Plans and Reports) requires the following to be addressed in the agency annual performance plan:

- Performance goals
- Goals in objective, quantifiable, and measurable form
- Operational processes
- Performance indicators
- Comparison of actual program results with the established performance goals
- Description of means used to verify and validate measured values

We reviewed the 2000, 2001, and 2002 NCUA Annual Performance Plans. We found that basically the plans met all Results Act requirements for NCUA Strategic Goal 1.

Our review found that the last three annual performance plans were essentially identical and were in agreement with the 2000-2005 NCUA Strategic Plan Goal 1. The matrix on the following pages shows the specifics and comparisons of the three plans.

<i>2000 Performance Plan:</i>	<i>2001 Performance Plan:</i>	<i>2002 Performance Plan:</i>
<p><b><u>Goal 1.1:</u></b> Ensure federally insured credit unions are financially healthy.</p> <p><b><u>Goal 1.1(a):</u></b> Reduce the percentage of federally insured credit unions with return on assets of less than 0.5% and net worth of less than 6% to 1.28 percent of credit unions.</p> <p><b><u>Measure:</u></b> (% credit unions in category)</p> <p><b><u>Target:</u></b> (1.28%)</p> <p><b><u>Goal 1.1(b):</u></b> Reduce the percentage of federally insured credit unions with net worth of less than 6% to 2.50% of federally insured operating credit unions.</p> <p><b><u>Measure:</u></b> (% of credit unions in category)</p> <p><b><u>Target:</u></b> (2.50%)</p>	<p><b><u>Goal 1.1:</u></b> Ensure federally insured credit unions are financially healthy.</p> <p><b><u>Goal 1.1(a):</u></b> Reduce the percentage of federally insured credit unions with return on assets (ROA) of less than 0.5% and net worth of less than 6% to 1.28 percent (credit unions chartered less than ten years are not included).</p> <p><b><u>Measure:</u></b> (% credit unions in category)</p> <p><b><u>Target:</u></b> (1.28%)</p> <p><b><u>Goal 1.1(b):</u></b> Reduce the number of federally insured credit unions with net worth less than 6.0 percent to 2.00 percent (credit unions chartered less than ten years are not included).</p> <p><b><u>Measure:</u></b> (% credit unions in category)</p> <p><b><u>Target:</u></b> (2.00%)</p>	<p><b><u>Goal 1.1:</u></b> Ensure federally insured credit unions are financially healthy.</p> <p><b><u>Goal 1.1(a):</u></b> Facilitate a reduction in the percentage of federally insured credit unions with ROA of less than 0.5% and net worth of less than 6%.</p> <p><b><u>Measure:</u></b> % credit unions in category.</p> <p><b><u>Target:</u></b> 1.28%</p> <p><b><u>Goal 1.1(b):</u></b> Facilitate an increase in the total capital in the corporate credit union system.</p> <p><b><u>Measure:</u></b> % increase in total dollars available.</p> <p><b><u>Target:</u></b> 0.50%</p>

<i>2000 Performance Plan:</i>	<i>2001 Performance Plan:</i>	<i>2002 Performance Plan:</i>
<p><b><u>Goal 1.2:</u></b> Ensure that credit union management is aware of and prepared to meet potential financial challenges.</p> <p><b><u>Goal 1.2:</u></b> Reduce the percentage of those federally insured credit unions that remain CAMEL code 3 for more than 36 months to 4% of operating federally insured credit unions.</p> <p><b><u>Measure:</u></b> % of Credit Unions in category.</p> <p><b><u>Target:</u></b> 4%</p>	<p><b><u>Goal 1.2:</u></b> Ensure that credit union management is aware of and positioned to meet current and potential future financial challenges.</p> <p><b><u>Goal 1.2(a):</u></b> Reduce the percentage of those federally insured credit unions that remain CAMEL code 3 for more than 36 months to 4% of operating federally insured credit unions.</p> <p><b><u>Measure:</u></b> % of credit unions in category.</p> <p><b><u>Target:</u></b> 4%</p> <p><b><u>Goal 1.2(b):</u></b> Maintain 75% of credit unions receiving a CAMEL management rating of 2 or better.</p> <p><b><u>Measure:</u></b> % of Credit Unions in category.</p> <p><b><u>Target:</u></b> 75%</p>	<p><b><u>Goal 1.2:</u></b> Ensure credit union management is aware of and is planning effectively to meet current and potential future financial challenges.</p> <p><b><u>Goal 1.2(a):</u></b> Maintain an above average score on credit union survey.</p> <p><b><u>Measure:</u></b> Examiner’s ability to provide information on trends and issues.</p> <p><b><u>Target:</u></b> 4.6 out of 5 on questions #4 &amp; #8</p> <p><b><u>Goal 1.2(b):</u></b> Reduce the percentage of those federally insured credit unions that remain CAMEL code 3 for more than 36 months.</p> <p><b><u>Measure:</u></b> % of Credit Unions in category.</p> <p><b><u>Target:</u></b> 4%</p>

<i>2000 Performance Plan:</i>	<i>2001 Performance Plan:</i>	<i>2002 Performance Plan:</i>
<p><b><u>Goal 1.3:</u></b> Maintain the healthy performance of the National Credit Union Share Insurance Fund (NCUSIF).</p> <p><b><u>Goal 1.3(a):</u></b> Maintain the insurance loss ratio ten-year average below \$0.30 per \$1,000.</p> <p><b><u>Measure:</u></b> Insurance Fund loss ratio.</p> <p><b><u>Target:</u></b> \$0.30 per \$1,000.</p> <p><b><u>Goal 1.3(b):</u></b> Maintain an equity ratio at or above 1.3%.</p> <p><b><u>Measure:</u></b> (NCUSIF equity ratio)</p> <p><b><u>Target:</u></b> (NCUSIF equity ratio 1.3%)</p>	<p><b><u>Goal 1.3:</u></b> Maintain the healthy performance of the National Credit Union Share Insurance Fund (NCUSIF).</p> <p><b><u>Goal 1.3(a):</u></b> Maintain the insurance loss ratio ten-year average below \$0.30 per \$1,000.</p> <p><b><u>Measure:</u></b> Insurance Fund loss ratio.</p> <p><b><u>Target:</u></b> \$0.30 per \$1,000.</p> <p><b><u>Goal 1.3(b):</u></b> Maintain NCUSIF equity ratio at or above 1.30 percent.</p> <p><b><u>Measure:</u></b> (NCUSIF equity ratio)</p> <p><b><u>Target:</u></b> (NCUSIF equity ratio 1.3%)</p>	<p><b><u>Goal 1.3:</u></b> Maintain the healthy performance of the National Credit Union Share Insurance Fund (NCUSIF).</p> <p><b><u>Goal 1.3(a):</u></b> Maintain the insurance loss ratio ten-year average below \$0.30 per \$1,000.</p> <p><b><u>Measure:</u></b> Insurance Fund loss ratio.</p> <p><b><u>Target:</u></b> \$0.30 per \$1,000.</p>

**SUMMARY:**

- Goal 1.1(a) – Same for 2000, 2001, and 2002
- Goal 1.1(b) – Target 2.5% for 2000, Target 2.0% for 2001, nothing for 2002
- Goal 1.1(b) – Target Increase CCU system capital .5% for 2002
- Goal 1.2 – Basically same for 2000, 2001, and 2002
- Goal 1.2 – Target 4% for 2000; same as Goal 1.2(a) for 2001; same as Goal 1.2(b) for 2002
- Goal 1.2(b) – Target CAMEL mgt. 2 or better 75% for 2001; nothing for 2000; nothing for 2002
- Goal 1.2(a) – Target 4.6 out of 5 on questions #4 & #5 for 2002; nothing for 2000; nothing for 2001
- Goal 1.3, Goal 1.3(a) – Maintain losses below \$.30 per \$1,000 and equity ratio of 1.3% same for 2000, 2001, and 2002.

**RECOMMENDATION:** None

## **Operating Plans**

NCUA Instruction 9501, Section 9, requires operating plans for offices responsible for carrying out the performance plan contributing to Results Act goal accomplishment. The plans are to incorporate guidance and action steps for accomplishing plan and team strategies.

### **E&I Operating Plans and Performance Reports**

We obtained and reviewed the E&I 2000 and 2002 operating plans to determine how the operating plans tie in with the agency strategic and annual plans. We also reviewed the 2000 and 2001 E&I Annual Performance Reports.

We found the E&I operating plans addressed the required strategies, action steps, milestones, responsible individuals and resources to be used for Goal 1 and all Outcome Goals 1.1, 1.2, and 1.3 where E&I had impact and the ability to affect the outcomes. The actions and plans enumerated by E&I appeared reasonable within the control of E&I to attain goal 1. The 2000 E&I Annual Performance Report indicated for the most part the 2000 plan's action steps and goals were accomplished. Uncompleted actions steps were progressing forward and were to be fully completed during 2001. Data reported and projected indicated accomplishment of goals. The 2001 E&I Annual Performance Report indicated action plans were met or if not met reasonable explanations were given such as plan being preempted by changes being introduced for risk focused examination initiative.

### **Regional Operating Plans and Monitoring Reports**

We obtained and reviewed a selected region's 2000, 2001, and 2002 Operating Plans; and the same region's 2000, 2001 Annual Plan Performance Reports. We found that the Plans and Reports mirrored the national guidance and Goal 1. The regional plans regarding strategies and action steps were much more detailed, as they should be, since the regional staff are closest to action and interaction with credit unions. The indicated greater detail is necessary in order to accomplish the goals. We found the plans and reports to be reasonable. All six regions prepare annual operating plans following the national guidance.

In addition, we noted the region was preparing and utilizing several locally generated reports to monitor progress of credit unions and the region in accomplishing Goal 1, including:

- Risk Analysis of FICUs with NWR <10% (Run from the national database semi-annually)  
The Risk Analysis report prepared by the region tracks credit union trend information for a 5 year period at year end for each FICU with a Net Worth Ratio (NWR) less than 10 percent. The region uses the report in analyzing credit union progress in key areas. The report listed CAMEL code, Assets, Net Worth, Net Worth Ratio, Loans, Loans Growth, Shares, Shares Growth, Net Income, Return on Assets, Delinquent Loans, Delinquency Ratio, Operating Expense to Average Assets ratio, and Loan Charge Off ratio.

From the Risk Analysis report the Division of Supervision selects credit unions for a Select Risk Review by the division.

- Regional Progress Report (Prepared monthly)  
The monthly Regional Progress Report with numerous FICU data tracks all regions' and national progress for credit unions. The report is prepared by E&I and used by the region for comparison purposes.
- Region Monthly Status Report (Prepared monthly)  
The region prepares the regional "Monthly Status Report" for regional SEs, regional senior management, E&I, Executive Director, and General Counsel. The report provides information on regional activity including sections entitled: Regional Summary (time summaries by SE group and region); CAMEL 4 & 5s (additions and deletions, duration of CAMEL 4 or 5 status); General Information (outstanding Letters of Understanding and Agreement by SE Group, outstanding SIAs by SE Group, credit unions with a Net Worth of <7%, Prohibition Actions status, Duration of CAMEL 3 Status, CAMEL 3 Last Contact >210 Days Report, and Last Contact >24 Months report); Potential DOI Actions (Potential DOI Acts Worksheet – potential consolidations and liquidations); Consolidations & Liquidations in Progress (Consolidations and Liquidations in Process Worksheet); Consolidations & Liquidations Completed CY 02 (Consolidations and Liquidations Completed Year-To-Date); Loan Guarantees and CLF Lines of Credit (CLF Line of Credit Outstanding, Loan Guarantees Outstanding, Bond Claims Log); and Insured Shares, Reserve Recommendations (Reserve Recommendations for Operating Credit Unions, Insured Shares, Insured Shares Graph).

**CONCLUSIONS:** We found that the operating plans for E&I and the selected region met the requirements set by the NCUA guidance. However, we did find that the only formal guidance available for strategic planning, NCUA Instruction 9501, is out of date and does not address all of current agency practices. It is our understanding that the Instruction is under revision to meet current conditions and practices.

**RECOMMENDATION 1:** NCUA should continue with its plans to review guidance for Results Act planning including NCUA Instruction 9501, and develop or revise current guidance to complement plans and proposed monitoring and progress reporting.

*Comments from Office of Executive Director:*

*As you correctly noted in your report, OSPSP (Office of Strategic Program Support and Planning) is currently rewriting NCUA Instruction 9501 and recently completed the first phase of the update. Calendars for all GPRA planning documents were placed in the public folders for access by the entire agency. The calendars will be updated annually or sooner if required and will be included as attachments to the updated Instruction 9501.*

**NCUA Progress in Meeting Goals**

Natural person credit unions at least semi-annually report their financial status to NCUA using call reports (form 5300). Starting with the third quarter 2002, all federally insured credit unions will submit quarterly reports to NCUA.

For Goal 1 (Promote a system of financially sound, well-managed federally insured credit unions able to withstand economic volatility), including Outcome Goals 1.1 and 1.2, we obtained and reviewed the semi-annual data reports generated from the NCUA database for 2000 and 2001 by the Office of Examination and Insurance. We found that the agency met and reported the outcome goals for 1.1 and 1.2 as supported by the following data:

### June 30, 2000 Data Report Results

Outcome Goal 1.1(a) Reduce the percentage of FICUs with return on assets of less than 0.5% and net worth of less than 6%		
<b>Goal</b> <b>1.28%</b>	<b>Results</b> <b>0.77%</b>	<b>Goal</b> <b>Met</b>

Outcome Goal 1.1(b) Reduce the percentage of federally insured credit unions with net worth of less than 6%		
<b>Goal</b> <b>2.50%</b>	<b>Results</b> <b>2.15%</b>	<b>Goal</b> <b>Met</b>

Outcome Goal 1.2 Reduce the percentage of those FICUs that remain CAMEL 3 for more than 36 months		
<b>Goal</b> <b>4%</b>	<b>Results</b> <b>4.3%</b>	<b>Goal</b> <b>Not Met</b>

### December 31, 2000 Data Report Results

Outcome Goal 1.1(a) Reduce the percentage of FICUs with return on assets of less than 0.5% and net worth of less than 6%		
<b>Goal</b> <b>1.28%</b>	<b>Results</b> <b>0.73%</b>	<b>Goal</b> <b>Met</b>

Outcome Goal 1.1(b) Reduce the percentage of federally insured credit unions with net worth of less than 6%		
<b>Goal</b> <b>2.50%</b>	<b>Results</b> <b>1.54%</b>	<b>Goal</b> <b>Met</b>

Outcome Goal 1.2 Reduce the percentage of those FICUs that remain CAMEL 3 for more than 36 months		
<b>Goal</b> <b>4%</b>	<b>Results</b> <b>3.63%</b>	<b>Goal</b> <b>Met</b>

### June 30, 2001 Data Report Results

Outcome Goal 1.1(a) Reduce the percentage of FICUs with return on assets of less than 0.5% and net worth of less than 6%		
<b>Goal</b> <b>1.28%</b>	<b>Results</b> <b>0.66%</b>	<b>Goal</b> <b>Met</b>

Outcome Goal 1.1(b) Reduce the percentage of federally insured credit unions with net worth of less than 6%		
<b>Goal</b> <b>2.00%</b>	<b>Results</b> <b>1.61%</b>	<b>Goal</b> <b>Met</b>

Outcome Goal 1.2(a) Reduce the percentage of those FICUs that remain CAMEL 3 for more than 36 months		
<b>Goal</b> <b>4%</b>	<b>Results</b> <b>3.42%</b>	<b>Goal</b> <b>Met</b>

Outcome Goal 1.2(b) Maintain 75% credit unions receiving a CAMEL management rating of 2 or better		
<b>Goal</b> <b>75%</b>	<b>Results</b> <b>76.27%</b>	<b>Goal</b> <b>Met</b>

### December 31, 2001 Data Report Results

Outcome Goal 1.1(a) Reduce the percentage of FICUs with return on assets of less than 0.5% and net worth of less than 6%		
<b>Goal</b> <b>1.28%</b>	<b>Results</b> <b>0.72%</b>	<b>Goal</b> <b>Met</b>

Outcome Goal 1.1(b) Reduce the percentage of federally insured credit unions with net worth of less than 6%		
<b>Goal</b> <b>2.00%</b>	<b>Results</b> <b>1.47%</b>	<b>Goal</b> <b>Met</b>

Outcome Goal 1.2(a) Reduce the percentage of those FICUs that remain CAMEL 3 for more than 36 months		
<b>Goal</b> <b>4%</b>	<b>Results</b> <b>3.54%</b>	<b>Goal</b> <b>Met</b>

Outcome Goal 1.2(b) Maintain 75% credit unions receiving a CAMEL management rating of 2 or better		
<b>Goal</b> <b>75%</b>	<b>Results</b> <b>75.84%</b>	<b>Goal</b> <b>Met</b>

For Goal 1 we obtained and reviewed the annual information for 2000 and 2001 supplied by the Office of the Chief Financial Officer (OCFO) for Outcome Goal 1.3 (Maintain the healthy performance of the National Credit Union Share Insurance Fund). We found that the agency reported and met the outcome goals for 1.3 as supported by the following data:

December 31, 2000 and 2001 Data from OCFO

Outcome Goal 1.3(a) Maintain the insurance loss ratio ten-year average below \$0.30 per \$1,000		
<b>Goal</b> <b>\$0.30 per \$1,000</b>	<b>Results</b> <b>Less than \$0.30 per \$1,000</b>	<b>Goal</b> <b>Met</b>

Outcome Goal 1.3(b) Maintain an equity ratio at or above 1.3%		
<b>Goal</b> <b>Equity Ratio 1.3%</b>	<b>Results</b> <b>1.3% for 12/31/00</b> <b>1.25% for 12/31/01</b>	<b>Goal Met</b> <b>Goal Not Met</b>

## CONCLUSIONS:

We reviewed the numbers and compared the report results for 2000 and 2001 to the numbers from the Office of Examination and Insurance and the Office of Chief Financial Officer for the report periods and provided to the Office Strategic Planning. We found the data in agreement with the results reported to the NCUA Board.

**RECOMMENDATION 2:** To recognize more current possible loss conditions for the NCUSIF equity ratio, NCUA should consider a five-year loss rolling average as a measurement, perhaps using the last ten years loss ratio as the baseline. This would have the effect of recognizing current conditions in a more timely manner. Also, the NCUSIF has had very few credit union losses in recent years as evidenced by the 1.3 percent equity ratio. NCUA should consider loss payouts as an additional measurement since current reserving practices may not disclose current conditions.

### Comments from Office of Executive Director:

*As indicated by E&I (Office of Examination and Insurance), our process already does this.*

*Additional comments provided by the Director of E&I included: I agree with this recommendation, ... The monthly reserve needs analysis considering moving 3, 5, and 10 year averages and looks at net charges in addition to losses.*

Additional comments provided by the Chief Financial Officer included:

*The Fund's (National Credit Union Share Insurance Fund) reserve needs are presently based upon an ongoing analysis, which considers three factors – (1) specific problem credit union needs, (2) historical loss experience, and (3) economic outlook/trend analysis for current and out years. The 2<sup>nd</sup> factor, historical loss experience, is based upon a three-year to ten-year range of losses. Since the Fund's losses have been minimal beginning in the mid 1990's and almost non-existent for the past several years, using a five year loss rolling average as recommended would require a lower reserve balance than is currently recorded. When the third component of the analysis process is applied (economic outlook and trend analysis), I believe that the present procedure is more than adequate since current and projected economic conditions are recognized.*

*I also disagree that loss/share payout data be used as an additional measurement to determine reserve needs. Loss payouts alone would result in a much higher reserve requirement. The present process of netting payouts against recoveries (bond claims, sale of assets, etc.) is a more valid measurement of loss. While the loss/share payout amount for a failed credit union may be considerable, the actual loss to the NCUSIF will be reduced as a result of the dissolution of assets acquired. Basing reserve needs on loss/share payouts alone could overstate the Fund's reserve need significantly.*

President and Congress each year. We obtained and reviewed a copy of the 2000 report to the Office of Management and Budget. At the time of our review, the 2001 report was in process. According to the Results Act, as applicable to NCUA, the report should include the following information: (Our evaluation of NCUA's 2000 report is printed in italics.)

- Performance indicators along with the actual program performance achieved compared with the performance goals expressed in the plan for that fiscal year. *We found the 2000 report included this information.*
- Review the success of achieving the performance goals of the fiscal year. *We found the 2000 report included this information.*
- Evaluate the performance plan for the current fiscal year relative to the performance achieved toward the performance goals in the fiscal year covered by the report. *We found the 2000 report included this information.*
- Explain and describe, where a performance goal has not been met (including when a program activity's performance is determined not to have met the criteria of a successful program activity under section 1115(b)(1)(A)(ii) or a corresponding level of achievement if another alternative form is used). *This part was not applicable in 2000 because all parts of Goal 1 were met and reported.*
- Include the summary findings of those program evaluations completed during the fiscal year covered by the report. *We found the 2000 report included this information.*
- The functions and activities of this section shall be considered to be inherently governmental functions. The drafting of program performance reports under this section shall be performed only by government employees. *NCUA staff drafted the report.*

The examination reports and call reports provide measurable results in support of goals and plans for natural person credit unions.

The Office of Strategic Planning (OSP) prepared the 2000 NCUA performance report to OMB. E&I staff members gathered information from reports; and regions provided comments on numbers and whether strategy was working and provided revisions to strategy. In preparing the annual report, the OSP incorporated information from progress reports; comments received from team leaders; and other pertinent information. Central and regional offices had an opportunity to comment and provide input to the draft report.

**CONCLUSIONS:** The 2000 NCUA Performance Report submitted to the Office of Management and Budget included the required information specified in the Results Act.

**RECOMMENDATIONS:** None.

## CALL REPORT PROCESS – NATURAL PERSON CREDIT UNIONS

### Natural Person Credit Union Call Report (5300)

Goal performance measurements utilizing call reports (5300 report) for natural

person credit unions were developed because the agency can obtain the information periodically and the information and the reports provide the most complete and reliable database for NCUA. Also, call reports provide consistent information on all federally insured credit unions (FICUs) twice a year. The reports track performance quantitatively toward the stated outcomes in a meaningful way. A narrative description of the call report process is presented below.

Through the assigned quarterly 5300 call report system as designed by the central office with input from the regions including: field examiners track 5300 input; central office looks at information for consistency; and regions prepare reports and analyze the information and report on achievement of goals as well as factors involved in goal achievement. Regional analyst reviews information supplied by NCUA database and prepares the quarterly reports sent to the central office.

Regional analyst prepared quarterly progress reports for 2000, and March and December 2001. The region did not prepare quarterly progress reports for June and September 2001. The June and September 2001 report the central office using the central NCUA database used by the region prepared information. The analyst spends approximately 2 days, plus assistance from DOI, during each quarter to prepare the update report.

All credit unions provide call reports at least semi-annually. Credit unions with assets >\$50 million provide quarterly reports. The call reports are used by the agency to report progress on strategic and performance plan goals. Call reports are also used by NCUA managers for data information and for use in revising goal strategies.

The process to obtain credit union reports is the responsibility of the Office of Examination and Insurance (E&I). Each examiner has approximately ten assigned credit unions. Examiners are familiar with their assigned credit unions. During the call report process, examiners obtain the reports from assigned credit unions and review the reports for correctness and reasonableness. Accordingly, most controls are at the regional office level. Some State Supervisory Authorities receive call report information from federally insured stated chartered credit unions and upload the reports directly to the NCUA database.

To ensure reliable data is available to assess performance measures, without bias, exaggeration or errors, E&I and regional offices test and perform queries after the call reports are uploaded to the database.

Regional examiners are required to be familiar with the financial condition of their assigned credit unions. Examiners review the call report information for their assigned credit unions for security, consistency,

and accuracy prior to their uploading the information to the NCUA database. In addition, when examiners perform examinations at their assigned credit unions they verify call report information and review internal controls, determine security, consistency and accuracy of information reported by the credit union. This information is documented in the examination work papers. When the region prepares performance reports, detailed examiners to the regional office are utilized to independently review the information for consistency and accuracy.

Call reports are prepared by credit unions and reviewed by examiners and analyzed by central office and regional staff. Examinations and supervision contacts performed by examiners and reviewed as appropriate by other staff provide an opportunity to collect and review data.

All federally insured credit unions will begin submitting quarterly call reports beginning with the third quarter 2002. Credit unions with assets less than \$10 million can use a short or abbreviated form, while credit unions with assets larger than \$10 million will be required to submit the current quarterly call report form.

Call report information can be reported electronically or on a manually prepared hard copy form. In excess of ninety-six percent of federally insured credit unions are reporting electronically call report information.

During the call report cycle, the examiners review data prior to uploading it to the NCUA database. Also, during examinations examiners verify and validate the call report and other information. During code 26 (insurance reviews) examiners have a chance to verify and validate the call report information.

As of June 30<sup>th</sup> and December 31<sup>st</sup>, 2001, regional DOS prepared an analysis of information from database for credit unions with capital less than 10 percent. The report was run recently this year. The analysis emphasis is on adverse trends and declining capital. Examiners can use the regional office capital trends analysis during their work with credit unions.

The call report information is entered into the NCUA database by the examiners in accordance with guidance and a time frame schedule. Examiner average time allowed is 2 hours per credit union per call report cycle, with 1 hour for data input and 1 hour for analysis. After the information is entered in the NCUA database and some analysis is performed by the central office (E&I), the region verifies information regarding CAMEL code credit unions and other performance measures for the goals. (See Attachment 1 for a flow chart of the call report process.)

**CONCLUSIONS:** NCUA is receiving and using call report information from federally insured credit unions (FICUs) in a consistent manner for planning and monitoring purposes. When the quarterly reporting takes effect for the third quarter 2002, the agency will receive more timely information from all FICUs which will assist the agency in providing better service to credit unions. The agency will also be able to adjust planning as needed in a timelier manner. To improve the process, consideration should be given to the following recommendations suggested by regional staff during our review.

Regional analysts spend approximately two days per quarter preparing the quarterly progress reports. In 2001, one regional office indicated that the central office had prepared the data (numbers) parts of two quarterly progress reports from the agency database normally used by the region. This work has been and can be prepared in the central office thereby relieving time spent in each of the six regions.

**RECOMMENDATION 3:** NCUA should consider automating the call report process with the credit unions inputting their reports to the agency database. Examiners could then monitor the completion just like agency analysts can do now. Examiners could also download the reports and check for errors and erratic trends for their assigned credit unions. This process would eliminate the need for the examiner to upload the credit union call reports. It is our understanding that this is also how FDIC processes their call reports.

Comments from Office of Executive Director:

*E&I and OCIO (Office of the Chief Information Officer) are currently developing the concept of fully automating the call report process and providing a vehicle for credit unions to submit their call reports via the Internet. We will shortly issue a Letter to Credit Unions on this subject. Having credit unions submit their data directly into the agency database without the provision for validation is currently not feasible. We plan to have credit unions submit their data directly into an agency server where NCUA examiners and SSAs (State Supervisory Authorities) will review it prior to its flow to the database. We will, of course as always, continue to study ways to enhance and improve our data collection methods and investigate ways to provide automated analysis. However, the examiner and SSAs will always remain as an integral part of this process.*

**RECOMMENDATION 4:** Consideration should be given to having E&I prepare the data (numbers) part of the quarterly progress report for each region with the region preparing the analysis part of the progress report after the data has been prepared by the central office.

Comments from Office of Executive Director:

*E&I could compile the regional progress numbers for each region as we do with the national numbers and we will consider implementing this change. Since the regions will have to analyze the data to determine the causes of any variances, the benefit of this change may be negligible.*

# ATTACHMENT 1 – CALL REPORT PROCESS (Natural Person Credit Unions)

